

Statements of Operations

(dollars in millions)

	Years ended September 30,		
	1998	1997	1996
Operating revenue—Note 8	\$60,072	\$58,216	\$56,402
Operating expenses:			
Compensation and benefits—Notes 2, 6, and 7	45,588	43,835	42,676
Transportation	4,207	4,026	3,736
Other	7,983	7,012	6,701
Total operating expenses	57,778	54,873	53,113
Income from operations	2,294	3,343	3,289
POD workers' compensation expense—Note 3	(8)	(258)	-
Interest and investment income	44	115	142
Interest expense on deferred retirement liabilities—Note 6	(1,597)	(1,597)	(1,449)
Interest expense on borrowings	(167)	(307)	(368)
Imputed interest on OBRA 1993 retroactive assessments for employee benefits—Note 4	(16)	(32)	(47)
Net income	\$ 550	\$ 1,264	\$ 1,567

See accompanying notes to financial statements.

Balance Sheets

(dollars in millions)

	September 30,	
	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	\$ 395	\$ 403
Receivables:		
Foreign countries	514	441
U.S. Government	154	101
Consignment	51	48
Other	154	159
	<u>873</u>	<u>749</u>
Less allowances	<u>88</u>	<u>77</u>
Total receivables, net	785	672
Supplies, advances and prepayments	<u>348</u>	<u>388</u>
Total current assets	1,528	1,463
Other assets, principally revenue forgone appropriations receivable—Note 8	379	372
Property and equipment, at cost:		
Buildings	15,123	13,911
Equipment	11,179	10,328
Land	2,286	2,178
Leasehold improvements	916	797
	<u>29,504</u>	<u>27,214</u>
Less allowances for depreciation and amortization	<u>10,785</u>	<u>9,702</u>
	18,719	17,512
Construction in progress	<u>2,073</u>	<u>1,862</u>
Total property and equipment, net	20,792	19,374
Deferred retirement costs—Note 6	<u>31,844</u>	<u>31,929</u>
Total assets	<u>\$54,543</u>	<u>\$53,138</u>

See accompanying notes to financial statements.

	September 30,	
	1998	1997
Liabilities and Net Capital Deficiency		
Current liabilities:		
Compensation and benefits	\$ 5,290	\$ 5,056
Estimated prepaid postage	1,673	1,743
Payables and accrued expenses:		
Foreign countries	780	703
U.S. Government	148	181
Other	742	940
Total payables and accrued expenses	1,670	1,824
Prepaid box rentals, permit and metered mail	1,955	1,924
Outstanding postal money orders	692	640
Current portion of long-term debt	3,633	2,647
Total current liabilities	14,913	13,834
Long-term debt, less current portion—Note 5	2,788	3,225
Other liabilities:		
Amounts payable for deferred retirement benefits—Note 6	30,138	30,343
Workers' compensation costs—Note 2	4,923	4,749
Employees' accumulated leave	1,959	1,858
Other	632	489
Total other liabilities	37,652	37,439
Commitments and contingencies—Notes 9 and 11		
Total liabilities	55,353	54,498
Net capital deficiency:		
Capital contributions of the U.S. Government	3,034	3,034
Deficit since reorganization	(3,844)	(4,394)
Total net capital deficiency	(810)	(1,360)
Total liabilities and net capital deficiency	\$54,543	\$53,138

See accompanying notes to financial statements.

Statements of Changes in Net Capital Deficiency

(dollars in millions)

	Years ended September 30, 1998, 1997, and 1996		
	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
Balance, September 30, 1995	\$3,034	\$ (7,225)	\$ (4,191)
Net Income	<u>-</u>	<u>1,567</u>	<u>1,567</u>
Balance, September 30, 1996	3,034	(5,658)	(2,624)
Net Income	<u>-</u>	<u>1,264</u>	<u>1,264</u>
Balance, September 30, 1997	3,034	(4,394)	(1,360)
Net Income	<u>-</u>	<u>550</u>	<u>550</u>
Balance, September 30, 1998	<u><u>\$3,034</u></u>	<u><u>\$(3,844)</u></u>	<u><u>\$ (810)</u></u>

See accompanying notes to financial statements.

UNITED STATES POSTAL SERVICE

Statements of Cash Flows

(dollars in millions)

	Years ended September 30,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 550	\$ 1,264	\$ 1,567
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,579	1,673	1,333
Loss on disposals of property and equipment, net	7	19	15
Increase in other assets, principally revenue forgone appropriations receivable	(7)	(18)	(37)
Increase (decrease) in USPS workers' compensation	195	(332)	205
(Decrease) increase in Post Office Department workers' compensation	(27)	258	-
Decrease in retroactive assessments payable to the U.S. Government	(331)	(315)	(300)
Increase in employees' accumulated leave	101	236	67
Increase in other liabilities	143	46	100
Changes in current assets and liabilities:			
(Increase) decrease in receivables, net	(113)	55	151
Decrease (increase) in supplies, advances and prepayments	40	22	(31)
Increase (decrease) in compensation and benefits	451	128	(562)
(Decrease) increase in estimated prepaid postage	(70)	20	26
Decrease in payables and accrued expenses	(154)	(1)	(190)
Increase in prepaid box rentals, permit and metered mail	31	332	162
Increase (decrease) in outstanding postal money orders	52	(40)	(17)
Net cash provided by operating activities	2,447	3,347	2,489
Cash flows from investing activities:			
Purchase of U.S. Government securities, available-for-sale	(620)	(300)	(799)
Proceeds from sale of U.S. Government securities, available-for-sale	622	300	800
Purchase of property and equipment	(3,055)	(3,233)	(2,340)
Proceeds from sale of property and equipment	49	26	4
Net cash used in investing activities	(3,004)	(3,207)	(2,335)
Cash flows from financing activities:			
Issuance of debt	5,696	1,964	1,500
Payments on debt	(5,147)	(2,011)	(2,861)
Net cash provided by (used in) financing activities	549	(47)	(1,361)
Net (decrease) increase in cash and cash equivalents	(8)	93	(1,207)
Cash and cash equivalents at beginning of year	403	310	1,517
Cash and cash equivalents at end of year	\$ 395	\$ 403	\$ 310

See accompanying notes to financial statements.